



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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TREASURER ANGELIDES: GOVERNOR SCHWARZENEGGER'S ECONOMIC RECOVERY PLAN HAS LEFT STATE DEEPER IN DEBT AND FACING MASSIVE NEW DEFICITS

*California State Treasurer's Annual Debt Report Calls on
Schwarzenegger to "Live Within the Promise of the Balanced
Budget Act," As Deficit Borrowing Climbs Past \$25 Billion and
State Faces New \$6 Billion Deficit*

SACRAMENTO, CA – California State Treasurer Phil Angelides today released the State's annual Debt Affordability Report that starkly outlined the failure of Governor Schwarzenegger's Economic Recovery Plan to balance the State's budget and end deficit borrowing. Governor Schwarzenegger promised voters that the Plan – the Economic Recovery Bonds (Proposition 57) and the California Balanced Budget Act (Proposition 58) – would result in "a balanced budget and no more deficits."

In this year's edition of the State's debt report, "Stop the Borrowing Binge: Living Within the Promise of the Balanced Budget Act," Angelides pointed out that despite those clear and unequivocal promises the voters relied on at the March 2004 election, California's budget debt is bigger than ever and the budget is still miles away from being balanced.

"The findings of today's report are clear: Governor Schwarzenegger's budget plan has put our State in a terrible fiscal bind," Treasurer Angelides said. "California's level of debt is far greater than when he took office 23 months ago and the State is facing deficits as far as the eye can see. Not only have his policies left us with an enormous and unsustainable debt and a continuing fiscal crisis, there appears to be no viable plan to climb out of it. These findings should be alarming to each and every citizen of this State."

According to the report, the State's deficit borrowing, which was \$18 billion when Governor Schwarzenegger took office, will reach \$25.7 billion by the end of this fiscal year, more than \$2,750 for each California family of four. The budget Governor Schwarzenegger signed into law for this fiscal year has a \$5 billion gap between revenues and expenditures, and the State faces a projected \$6 billion deficit in the next fiscal year.

Today's release comes two years after Angelides cautioned, in the 2003 Debt Affordability Report, that the State had begun to travel down a dangerous road, borrowing to cover deficits, not to build for the future. Warning then that the Legislature and Governor Gray Davis had approved deficit borrowing beyond what was fiscally prudent, Angelides urged then-Governor-elect Schwarzenegger to send to the Legislature a budget-balancing package that reduced to the greatest extent possible the \$10.6 billion in deficit bonds approved in the 2003-04 budget and that in no event increased the amount of deficit borrowing. However, Governor Schwarzenegger ignored this warning and went in the other direction; since he took office, the State's deficit borrowing has increased by nearly \$8 billion.

In today's report, Treasurer Angelides called on Governor Schwarzenegger to live within the promise of the California Balanced Budget Act by submitting in January a balanced budget for the 2006-07 fiscal year without further deficit borrowing. Angelides said Schwarzenegger needs to act, while the economy is stable, to balance the State's budget and stop the massive deficit borrowing that has loaded our children with debt, damaged the state's credit ratings, raised costs for taxpayers, and eaten up tax dollars that would otherwise be available for schools, colleges, health care, and public safety.

"Today's report contains a simple recommendation," Angelides said, "It calls on Governor Schwarzenegger to live within the promise he made to voters when they approved the Balanced Budget Act, by submitting a balanced budget for the 2006-07 fiscal year, without any further borrowing."

The Treasurer's report outlined the clear and severe consequences of the State's failure to balance the budget and stop its unprecedented deficit borrowing:

- Repaying the principal and interest on the State's deficit borrowing will be a drag on California's future for years to come – payments on the debt takes up revenue that would otherwise be available for schools, colleges, health care and public safety. By the 2007-08 fiscal year, the State will spend close to \$3.5 billion in that year alone repaying deficit borrowing, more than it spends on the entire University of California system.
- California still has the lowest credit ratings of any U.S. state, and these low ratings impose significant costs on the State; if California fails to end its budget crisis and raise its credit ratings, it will impose an interest rate penalty on its future infrastructure borrowing that could cost taxpayers more than \$1 billion.
- The State's deficit borrowing impinges on California's capacity to issue bonds to build capital projects to educate our children, move people and goods, supply water to cities and farms and protect the environment. Today, the State's deficit borrowing alone exceeds what the State's total debt for all purposes was in 2000.

The release of the Treasurer's report today comes amidst reports that the economy may be headed for a slowdown. Just last week, UCLA's respected Anderson Forecast warned that the state might face a recession as early as next year if housing prices fall. In light of this

information, Angelides said California must act now to balance its budget and end deficit spending, as the State risks even greater deficits than those currently projected should an economic downturn present itself. If California personal income were to grow by two percentage points less than forecast in the current fiscal year, the deficit could swell to \$9 billion dollars.

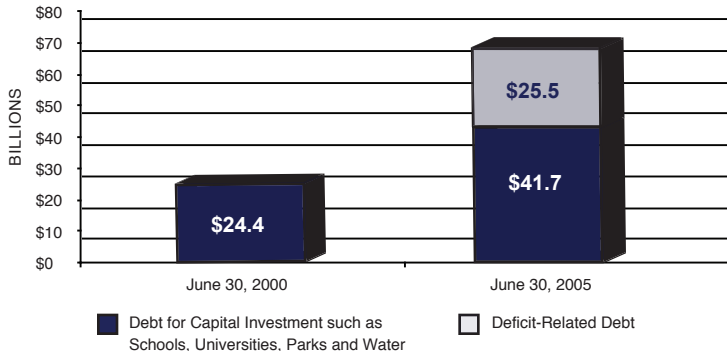
“To balance its budget, California does not need gimmicks, incomprehensible formulas, and self-locking budget straightjackets. All our State needs is for the Governor to propose and the Legislature to adopt a balanced budget without further borrowing,” said Angelides.

(Note: The 2005 Debt Affordability Report is available on the Treasurer’s Office website, www.treasurer.ca.gov)

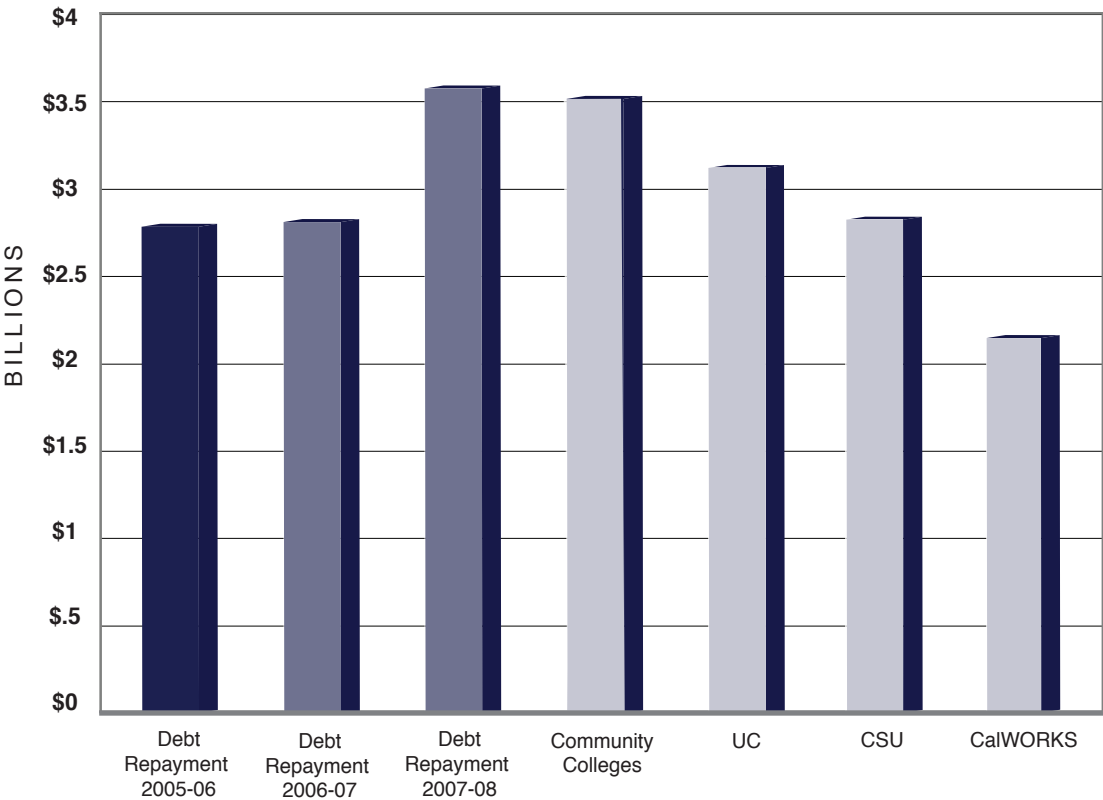
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California's Budget Debt has Soared from \$0 to Over \$25 Billion in 5 Years

Debt to Cover Deficits in 2005 Exceeds All State Debt in 2000



**Repayment on Budget Debt Will Be
5th Largest General Fund Budget Cost -
Exceeding Support for University of California**



(Estimated 2007-08 General Fund Expenditures)

ARGUMENT in Favor of Proposition 58

...The California Balanced Budget Act:

WILL require a BALANCED BUDGET;

WILL require that SPENDING NOT EXCEED INCOME each fiscal year;

WILL require general funds to be put in a "Rainy Day" fund to build a RESERVE to protect California from future economic downturns. The Budget Stabilization Account will also be used to pay off the California Economic Recovery Bond early;

WILL allow the Governor to call a fiscal emergency if revenues drop below expenditures or if expenditures exceed revenues; and

WILL prohibit the Legislature from acting on other legislation or adjourning if they fail to pass legislation to address the crisis.

California faces unprecedented budget deficits. Overspending has led to serious shortfalls which threatens the state's ability to pay its bills and access financial markets. **This proposition is a safeguard against this EVER HAPPENING AGAIN. Proposition 58 will prevent the Legislature from ENACTING BUDGETS THAT SPEND MORE MONEY THAN WE HAVE...**

REBUTTAL to Argument Against Proposition 58

Don't be fooled by the opponents. The California Taxpayers Association supports the California Balanced Budget Act.

Proposition 58 WILL REQUIRE A BALANCED BUDGET for the first time. State government spending in California is out of control. Over the past three years, state spending has significantly exceeded state revenues.

Under Proposition 58, the Governor and the California State Legislature must ENACT a BALANCED BUDGET. It will CLOSE A LOOP HOLE that was used to create the huge deficit.

Governor Schwarzenegger's California Economic Recovery Plan includes both Propositions 57 and 58.

Combined, **the two measures will allow California to refinance its debt and prevent such a situation from EVER HAPPENING AGAIN. We should not be allowed to SPEND MORE MONEY THAN WE HAVE...**